

Audited Financial Statements



June 30, 2018 and 2017

Quigley & Miron

**Pasadena Educational Foundation
Audited Financial Statements
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June 30, 2018 and 2017**

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Independent Auditor's Report

Board of Directors
Pasadena Educational Foundation
Pasadena, California

We have audited the accompanying financial statements of Pasadena Educational Foundation, a nonprofit organization, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

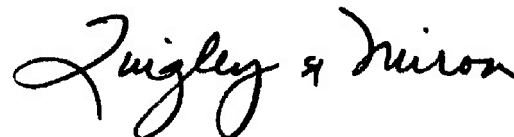
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pasadena Educational Foundation as of June 30, 2018 and 2017 and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Los Angeles, California
January 30, 2019



**Pasadena Educational Foundation
Statements of Financial Position
June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,800,549	\$ 1,792,872
Investments—Note 2	5,241,764	4,818,930
Beneficial interest in assets held at the Pasadena Community Foundation—Note 9	110,996	102,387
Accounts receivable	124,484	97,472
Other assets	31,441	30,000
Total Assets	<u>\$ 7,309,234</u>	<u>\$ 6,841,661</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	941,691	504,301
Deferred revenue—summer school	223,178	184,224
Total Liabilities	<u>1,164,869</u>	<u>688,525</u>
Net Assets		
Unrestricted	11,146	122,347
Temporarily restricted—Note 4	5,887,394	5,785,064
Permanently restricted—Note 5	245,825	245,725
Total Net Assets	<u>6,144,365</u>	<u>6,153,136</u>
Total Liabilities and Net Assets	<u>\$ 7,309,234</u>	<u>\$ 6,841,661</u>

See notes to financial statements.

**Pasadena Educational Foundation
Statement of Activities
Year Ended June 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions	\$ 500,501	\$ 3,622,641	\$ 100	\$ 4,123,242
Summer school income, net of scholarships of \$155,038	578,318			578,318
Special event income, net—Note 7	78,085			78,085
Fee income	168,000			168,000
Interest income	221,361	5,604		226,965
Investment gains (losses)	(136,825)	20,119		(116,706)
Change in value of beneficial interest in assets held at the Pasadena Community Foundation		8,509		8,509
Net assets released from restrictions and reclassifications	3,554,543	(3,554,543)		
Total Support and Revenue	4,963,983	102,330	100	5,066,413
Expenses				
Program services				
Educational programs	3,373,836			3,373,836
Summer school	876,890			876,890
Total Program Services	4,250,726			4,250,726
Supporting services				
Management and general	259,311			259,311
Fundraising	565,147			565,147
Total Supporting Services	824,458			824,458
Total Expenses	5,075,184			5,075,184
Change in Net Assets	(111,201)	102,330	100	(8,771)
Net Assets at Beginning of Year	122,347	5,785,064	245,725	6,153,136
Net Assets at End of Year	\$ 11,146	\$ 5,887,394	\$ 245,825	\$ 6,144,365

See notes to financial statements.

Pasadena Educational Foundation
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Contributions	\$ 338,719	\$ 3,524,313	\$ 126	\$ 3,863,158
Summer school income, net of scholarships of \$160,536	477,000			477,000
Special event income, net—Note 7	128,222			128,222
Fee income	150,000			150,000
Interest income	185,437	4,885		190,322
Investment losses	(147,677)	(69,031)		(216,708)
Change in value of beneficial interest in assets held at the Pasadena Community Foundation		21,582		21,582
Net assets released from restrictions and reclassifications	3,927,988	(3,927,988)		
Total Support and Revenue	5,059,689	(446,239)	126	4,613,576
Expenses				
Program services				
Educational programs	3,789,929			3,789,929
Summer school	820,867			820,867
Total Program Services	4,610,796			4,610,796
Supporting services				
Management and general	178,939			178,939
Fundraising	523,718			523,718
Total Supporting Services	702,657			702,657
Total Expenses	5,313,453			5,313,453
Change in Net Assets	(253,764)	(446,239)	126	(699,877)
Net Assets at Beginning of Year	376,111	6,231,303	245,599	6,853,013
Net Assets at End of Year	\$ 122,347	\$ 5,785,064	\$ 245,725	\$ 6,153,136

See notes to financial statements.

**Pasadena Educational Foundation
Statement of Functional Expenses
Year Ended June 30, 2018**

	Program Services		Supporting Services		Total
	Educational Programs	Summer School	Management and General	Fundraising	
Direct Program-Related					
District funding	1,050,505	\$	\$	\$	\$ 1,050,505
Equipment, materials, and supplies	534,439				534,439
Outside contractors	450,035				450,035
Teacher grants	194,519				194,519
Field trips	155,280				155,280
School events	147,681				147,681
Stipends	89,826				89,826
Scholarships	59,250				59,250
Meetings and conferences	50,595				50,595
Educator professional development	28,182				28,182
Merchant and bank fees	23,971				23,971
Travel	18,260				18,260
Investment fees	2,574				2,574
Total Direct Program-Related	2,805,117				2,805,117
Payroll	477,443	658,426	155,054	374,678	1,665,601
Employee benefits	43,881	37,031	18,060	43,642	142,614
Payroll taxes	38,656	66,326	12,313	29,753	147,048
Office expenses	5,825	62,972	45,551	39,759	154,107
Outside services and professional fees	2,064	51,135	27,333	48,434	128,966
Community engagement				27,881	27,881
Insurance	850	1,000	1,000	1,000	3,850
Total Expenses	\$ 3,373,836	\$ 876,890	\$ 259,311	\$ 565,147	\$ 5,075,184

See notes to financial statements.

**Pasadena Educational Foundation
Statement of Functional Expenses
Year Ended June 30, 2017**

	Program Services		Supporting Services		Total
	Educational Programs	Summer School	Management and General	Fundraising	
Direct Program-Related					
District funding	\$ 1,336,342	\$	\$	\$	\$ 1,336,342
Equipment, materials, and supplies	497,148				497,148
Outside contractors	398,655				398,655
Teacher grants	185,979				185,979
Field trips	212,567				212,567
School events	100,169				100,169
Stipends	155,464				155,464
Scholarships	57,451				57,451
Meetings and conferences	39,756				39,756
Educator professional development	18,481				18,481
Merchant and bank fees	16,315				16,315
Travel	9,485				9,485
Investment fees	2,389				2,389
Communications and marketing	12,867				12,867
Total Direct Program-Related	3,043,068				3,043,068
Payroll	596,378	620,634	112,499	376,717	1,706,228
Employee benefits	48,041	29,186	10,833	36,275	124,335
Payroll taxes	50,004	61,216	8,715	29,184	149,119
Office expenses	48,625	50,700	9,190	30,774	139,289
Outside services and professional fees	3,113	58,131	36,702	28,838	126,784
Community engagement				20,930	20,930
Insurance	700	1,000	1,000	1,000	3,700
Total Expenses	\$ 3,789,929	\$ 820,867	\$ 178,939	\$ 523,718	\$ 5,313,453

See notes to financial statements.

**Pasadena Educational Foundation
Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (8,771)	\$ (699,877)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Investment losses	116,706	216,708
Contributions to beneficial interest in assets held at the Pasadena Community Foundation	(100)	(126)
Change in value of beneficial interest in assets held at the Pasadena Community Foundation	(8,509)	(21,582)
Decrease in operating assets:		
Accounts receivable	(27,012)	(47,903)
Other assets	(1,441)	(12,978)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	437,390	(116,360)
Deferred revenue—summer school	38,954	(3,381)
	<u>547,217</u>	<u>(685,499)</u>
Net Cash Provided by (Used in) Operating Activities	547,217	(685,499)
Cash Flows from Investing Activities		
Purchase of beneficial interest in perpetual trust		(80,679)
Purchase of investments	(1,201,449)	(4,616,534)
Sale of investments	661,909	5,024,694
	<u>(539,540)</u>	<u>327,481</u>
Net Cash Provided by (Used in) Investing Activities	(539,540)	327,481
Increase (Decrease) in Cash and Cash Equivalents	7,677	(358,018)
Cash and Cash Equivalents at Beginning of Year	<u>1,792,872</u>	<u>2,150,890</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,800,549</u></u>	<u><u>\$ 1,792,872</u></u>
Supplementary Disclosures		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$</u>	<u>\$</u>

Pasadena Educational Foundation
Notes to Financial Statements
June 30, 2018 and 2017

Note 1—Organization and Summary of Significant Accounting Policies

Pasadena Educational Foundation (Foundation) is a non-profit community-based organization which joins the public and private sectors in a partnership to (1) develop supplementary financial support for Pasadena Unified School District (PUSD) programs, (2) encourage dedicated teachers by funding creative projects, and (3) promote confidence in PUSD and public schools in general. The Foundation occupies office space provided by PUSD at no cost.

The Foundation operates a Summer Enrichment Program, that serves area K-12 students, predominantly drawing from the PUSD student population, but also available to private, parochial, and outside of district public school students. The program is sustained through a combination of tuition fees paid by parents and charitable contributions from foundations and individuals; those charitable donations enable the Foundation to keep its costs competitive and offer tuition assistance to those in need.

The Foundation works closely with PUSD in presenting state-of-the-art computer science (CS) instruction at Pasadena High School's App Academy. The Foundation works with district's instructional experts to build next-generation CS curriculum and provides funding for hardware, software, and instructional expenses related to the App Academy.

Other programs operated and/or sustained by the fundraising efforts of the Foundation are a middle school Robotics program, the comprehensive K-6 My Masterpieces arts program, a Teacher Grants program that funds innovative teachers and projects at the classroom level, College & Career Pathways in the PUSD high schools, Principal for a Day community engagement effort, and much more.

In addition to contributions directly received by the Foundation from the private and public sectors, the Foundation, in coordination with the PUSD, solicits contributions that go directly from the donor to the PUSD. Such contributions, amounting to approximately \$8,456,000 and \$6,424,000 for the years ended June 30, 2018 and 2017, respectively, are not recorded in the Foundation's financial statements.

Financial Statement Presentation—The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Foundation.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

Permanently restricted net assets—Net assets for which the donor has stipulated that the principal be maintained into perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Income Taxes—The Foundation is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered ‘more likely than not’ to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2018 and 2017. Generally, the Foundation’s information returns remain open for examination for a period of three years (federal) or four years (state of California) from the date of filing.

Reclassifications—Certain amounts in 2017 have been reclassified to conform with the 2018 financial statement presentation.

Cash Equivalents—The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentrations of Credit Risk—Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash, certificates of deposit, money market funds and unconditional promises to give. The Foundation places cash and certificates of deposit with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Foundation also places money market funds, certificates of deposit, corporate bonds and common stock with a large securities broker-dealer where the funds are guaranteed by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per institution. At times, cash, money market fund, and certificate of deposit balances may be in excess of the FDIC/SIPC insurance limits.

Contributions receivable represents amounts due from donors and organizations well known to the Foundation with a history of timely payment. Accounts receivable represents amounts due from the Pasadena Unified School District for administrative services rendered. Management has assessed the credit worthiness of these receivables and determined that an allowance for doubtful accounts is not necessary at June 30, 2018 and 2017.

Revenue recognition—The Foundation’s revenue recognition policies are as follows:

Summer school income—Summer school income is recognized at the time the classes are provided; prepaid summer school income at year end is included in deferred revenue.

Special event income—Special event income is recognized when such income is received.

Fee income—Fee income is recognized at the time the services are provided; unpaid fee income at year end is included in accounts receivable.

Investments—Investments are valued at fair market value. Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases in the appropriate net asset category.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Use of Estimates—Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenues and expenses. Actual results may differ from those estimates and assumptions.

Recently Adopted Accounting Principle—In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share as a practical expedient. The Foundation has adopted ASU 2015-07 for the year ended June 30, 2018, however, the retrospective approach requires that an investment for which fair value is measured using NAV as a practical expedient be removed from the fair value hierarchy in all periods presented in the financial statements.

Note 2—Investments

Investments at June 30, 2018 and 2017 recorded at fair market value consist of the following:

	<u>2018</u>	<u>2017</u>
Bonds	\$ 4,453,327	\$ 3,989,847
Common stock	606,887	524,383
Mutual funds	83,292	167,651
Exchange traded funds	54,560	93,150
Government securities	43,698	43,899
Totals	<u>\$ 5,241,764</u>	<u>\$ 4,818,930</u>

Note 3—Fair Value Measurements

In determining the fair value of investments, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Foundation determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the Foundation at the measurement date. The Foundation's Level 1 assets consist of common stocks, mutual funds, and exchange traded funds at June 30, 2018 and 2017.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 3—Fair Value Measurements—Continued

Level 2—Valuations based on observable inputs (other than Level 1), such as quoted prices for similar assets at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly. The Foundation's Level 2 assets consist of fixed income and government securities at June 30, 2018 and 2017.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment. The Foundation's Level 3 assets consist of a pooled community fund held at the Pasadena Community Foundation (PCF) at June 30, 2018 and 2017.

The Foundation may utilize a practical expedient, Net Asset Value (NAV) per share, for the estimation of the fair value of investments in PCF for which the investment does not have a readily determinable fair value. The Foundation had no assets or liabilities classified at NAV as a practical expedient during the years ended June 30, 2018 and 2017. The estimated fair values of certain investments of PCF, which includes private placements and other securities for which prices are not readily available, are determined by the management of PCF and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. PCF's investments are composed primarily of equities and fixed income securities. The beneficial interest in assets held at PCF is not redeemable by the Foundation, as described in Note 9.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Common Stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Exchange Traded Funds: Valued at the closing price reported on the active market on which the funds are traded. These funds are deemed to be actively traded.

Government Securities: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 3—Fair Value Measurements—Continued

Fair values of assets and liabilities measured on a recurring basis at June 30, 2018 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Bonds	\$ 4,453,327	\$	\$ 4,453,327	\$
Common stock	606,887	606,887		
Mutual funds	83,292	83,292		
Exchange traded funds	54,560	54,560		
Government securities	43,698		43,698	
Total Investments	5,241,764	744,739	4,497,025	
Beneficial interest in assets held at the Pasadena Community Foundation	110,996			110,996
Totals	\$ 5,352,760	\$ 744,739	\$ 4,497,025	\$ 110,996

Fair values of assets and liabilities measured on a recurring basis at June 30, 2017 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Bonds	\$ 3,989,847	\$	\$ 3,989,847	\$
Common stock	524,383	524,383		
Mutual funds	167,651	167,651		
Exchange traded funds	93,150	93,150		
Government securities	43,899		43,899	
Total Investments	4,818,930	785,184	4,033,746	
Beneficial interest in assets held at the Pasadena Community Foundation	102,387			102,387
Totals	\$ 4,921,317	\$ 785,184	\$ 4,033,746	\$ 102,387

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 3—Fair Value Measurements—Continued

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation’s investments in financial instruments in which management has used at least one significant unobservable input in the valuation model. The following table represents a reconciliation of the activities for Level 3 financial instruments:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 102,387	\$
Amounts transferred to Pasadena Community Foundation		95,756
Share of appreciation in the beneficial interest in Pasadena Community Foundation	8,509	6,505
Contributions	<u>100</u>	<u>126</u>
Balance at the End of Year	<u>\$ 110,996</u>	<u>\$ 102,387</u>

Note 4—Temporarily Restricted Net Assets

Temporarily restricted net assets totaling \$5,887,394 and \$5,785,064 at June 30, 2018 and 2017, respectively, consist of donor-restricted amounts received which require the payment of specified program service expenses in satisfaction of the restriction. Specifically, these balances relate to the funding of various schools and the respective programs within these schools such as technology, the arts, scholarships, and other specified programs.

Note 5—Permanently Restricted Net Assets

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of California as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Board is aware that there is an implicit understanding that the market value of the donor-restricted endowment may, from time to time, fall below the fair value of the original gift as of the gift date due to market conditions or continued prudent expenditures by the Board of certain amounts of the endowment. If such a temporary deficit condition occurred, the Board would take all prudent steps, given ongoing market conditions, to restore the fair value of the fund to an amount at or above the amount of the original gift.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets the following: the corpus of the endowment; the original gift donated to the permanent endowment; the original value of subsequent gifts to the permanent endowment; and the accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted endowment fund not classified as permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Note 5—Permanently Restricted Net Assets—Continued

Pasadena Educational Foundation
Notes to Financial Statements—Continued

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization
- (8) The duration and preservation of the fund
- (9) The purposes of the organization and the donor-restricted endowment fund
- (10) General economic conditions
- (11) The possible effect of inflation and deflation
- (12) The expected total return from income and the appreciation of investments
- (13) Other resources of the organization
- (14) The investment policies of the organization

Return objectives and risk parameters—It is the purpose of the Foundation's endowment fund to secure the future of the Foundation and to support its programs and operations as designated by the Board.

The primary long-term financial objective is to preserve and enhance the real (i.e., inflation-adjusted) purchasing power of the endowment through a prudent long-term investment strategy. This objective should be achieved over rolling three- and five-year periods on a total return basis. An additional objective is to provide a relatively predictable, stable, and (in real terms) constant stream of current income for the Foundation's annual operating needs.

The primary investment objective of the endowment is to earn an annual return of 8% over a three to five year market cycle. The Foundation considers itself a risk-averse investor. That is, among various investment alternatives with comparable expected returns, the preference is for those having the lowest risk.

Strategies employed for achieving objectives—The Foundation manages its endowment on a total rate of return basis consisting of dividends, interest, and any net increase / decrease in market value of securities for the fiscal year, not favoring returns from one source over another.

The Foundation has determined that marketable debt and equity securities traded in the United States are appropriate investments consistent with its return objectives and risk parameters. Cash invested in money market accounts is also an acceptable investment within these guidelines. The investment portfolio is to be sufficiently balanced so that no single security or class of securities will have a disproportionate impact on the risk of the total portfolio.

Spending policy and how the investment objectives relate to spending policy—The Foundation has a policy governing the amount of endowment earnings that can be released annually for spending, consistent with the restrictions, if any, placed on the endowment by donors. The spending policy authorizes an annual distribution equal to 5% of the average market value of the portfolios as of the

Note 5—Permanently Restricted Net Assets—Continued

Pasadena Educational Foundation
Notes to Financial Statements—Continued

twelve preceding quarters, subject to the requirement that the portfolios increase by an inflation factor annually.

Summary of endowment fund balances and activity—Permanently restricted endowment net asset composition by donor-imposed stipulations for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Wilson Library	\$ 100,920	\$ 100,920
Music and education	64,000	64,000
General operating purposes	80,905	80,805
Totals	<u>\$ 245,825</u>	<u>\$ 245,725</u>

Change in endowment net assets consists of:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at June 30, 2016	\$ 24,765	\$ 245,599	\$ 270,364
Investment income	19,214		19,214
Investment losses	(7,172)		(7,172)
Increase in beneficial interest in perpetual trust	6,505		6,505
Total Investment Return	18,547		18,547
Contributions		126	126
Endowment Net Assets at June 30, 2017	43,312	245,725	289,037
Investment income	3,128		3,128
Investment gains	11,775		11,775
Increase in beneficial interest in perpetual trust	8,509		8,509
Total Investment Return	23,412		23,412
Contributions		100	100
Endowment Net Assets at June 30, 2018	<u>\$ 66,724</u>	<u>\$ 245,825</u>	<u>\$ 312,549</u>

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 5—Permanently Restricted Net Assets—Continued

Endowment net assets consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash	\$ 55,467	\$ 52,339
Investments	146,086	134,311
Beneficial interest in perpetual trust	110,996	102,387
Totals	<u>\$ 312,549</u>	<u>\$ 289,037</u>

Note 6—Commitments and Contingencies

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although that is a possibility, the Board deems the contingency remote since, by accepting the gifts and their terms, the Board is acknowledging the requirements of the grantor at the time of receipt of the grant.

Note 7—Special Event Income, Net

Net special event income for the years ended June 30, 2018 and 2017 consists of the following:

	<u>Income</u>	<u>Expense</u>	<u>Net</u>
2018:			
Rock 4 PEF	\$	\$ 52	\$ 52
Spring Event	141,536	(63,503)	78,033
Net	<u>\$ 141,536</u>	<u>\$ (63,451)</u>	<u>\$ 78,085</u>
2017:			
Rock 4 PEF	\$ 39,962	\$ (24,134)	\$ 15,828
Spring Event	158,268	(45,874)	112,394
Net	<u>\$ 198,230</u>	<u>\$ (70,008)</u>	<u>\$ 128,222</u>

Total fundraising expenses for the years ended June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Fundraising expenses per statement of functional expenses	\$ 565,147	\$ 523,718
Special event expenses	63,451	70,008
Totals	<u>\$ 628,598</u>	<u>\$ 593,726</u>

Functional expenses, including special events expenses, totaled \$5,138,635 and \$5,383,461 for the years ended June 30, 2018 and 2017, respectively.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 8—Retirement Plan

The Foundation has established a defined contribution plan (Plan) whereby eligible employees may contribute to the Plan upon being hired. Employees are eligible if they are age 21 and are employed to work at least 1,000 hours a year. The Foundation makes contributions to the Plan for employees age 21 and over, upon the employee's one-year anniversary, and 1,000 hour of service milestone. Employer contributions vest immediately. The Foundation made contributions to the Plan totaling \$47,723 and \$55,721 during the years ended June 30, 2018 and 2017, respectively.

Note 9—Transfer of Permanently Restricted Net Assets to the Pasadena Community Foundation

In December 2016, the Foundation transferred general endowment assets to PCF which is holding them as an endowed component Fund ("PCF Fund") for the benefit of the Foundation. The Foundation has granted PCF sole variance power to modify any restrictions or conditions imposed by donors on the PCF Fund or assets if, in the judgment of PCF's board, such restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable purposes or needs served by PCF. The PCF Fund is subject to the PCF investment and spending policies. PCF and the Foundation jointly intend that the PCF Fund will continue to provide for the charitable purposes of the Foundation and that the assets will continue to be held as permanently restricted assets as intended by the original donors. Distributions out of the PCF Fund may be made annually, as deemed prudent by the PCF board and consistent with applicable law. PCF is entitled to support fees, deductible from the PCF Fund, in accordance with their current fee schedule, which may be amended from time to time. PCF is also entitled to direct expenses, in connection with, the administration of the PCF Fund. Changes in the value of the PCF Fund are reported as gains or losses in the Foundation's statement of activities. The Foundation reports the fair value of the PCF Fund in the statement of financial position as "Beneficial Interest in Assets Held at the Pasadena Community Foundation."

Note 10—Recent Accounting Pronouncements

Net Assets Presentation—In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for the Foundation in 2018. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements.

Pasadena Educational Foundation
Notes to Financial Statements—Continued

Note 11—Subsequent Events

Management evaluated all activities of Pasadena Educational Foundation through January 30, 2019, which is the date the financial statements were available to be issued, and concluded that no additional material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.